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The Province of Alberta



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IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

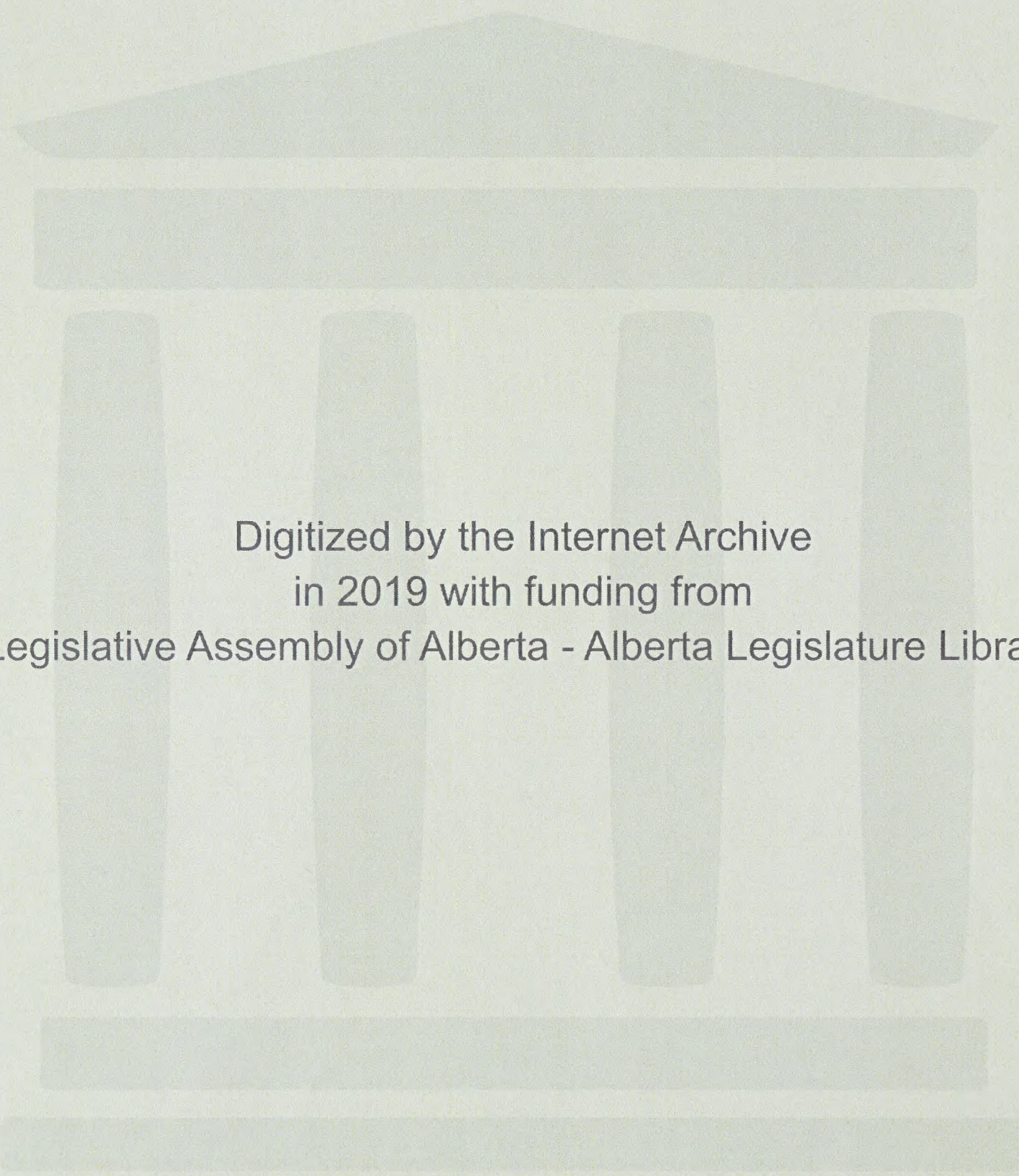
G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta March 19th, 1946

VOLUME 76



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I N D E X

VOLUME 76

March 19th, 1946.

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T-1-1 9.35 A.M.

R. Donellan,
Dir. Exam. by Mr. Harvie.

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VOLUME 76.

Tuesday,
19th March, 1946.

9.A.M. SESSION.

THE CHAIRMAN: What have we this morning?

MR. HARVIE: Mr. Donellan.

ROBERT DONELLAN, (Recalled)

BY MR. HARVIE: Mr. Chairman, I have had typed Exhibit 163.
I will now distribute the copies.

MR. STEER: Did you have Exhibit 164 typed because
it is impossible to read it, that last sheet?

Q MR. HARVIE: Exhibit 164 is the one you are now having
typed?

A Yes, we are having better copies prepared.

Q I think at the close of the Hearing yesterday that you were
asked to prepare some additional information to be put on the
record?

A I went over my notes last night and there are one or two
matters that I will just report on that I promised to look
into. Somebody requested that I get a detail of the schedule
price of the 45 pound absorption gasoline and whether it was
a competitive price. I telephoned the Toronto office for
this information and it will be prepared. Unfortunately I
could not get it over the telephone. The office was closed
last night when I got out of here.

With regard to the make-up of the 19.03
cents requested by Mr. Blanchard. That information, Mr.
Blanchard, you will find in Exhibit A or Schedule A attached
to Exhibit 147, which is the contract.

Q MR. BLANCHARD: Yes, I have seen that but I did not
understand it.

Mr. [Name] [Address]

- 1 -

Dear Sir,

1000 [Address]

1000 [Address]

Mr. [Name] [Address]

Mr. [Name] [Address]

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R. Donellan,
Dir. Exam. by Mr. Harvie.

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A I can outline what it is for you. That 21 cent price in the Chicago area is the posted price in the Chicago area. Now that posted price is quite definite in the U. S.A. as being the price that is shown in the Oil & Gas Journal and all the industry journals. All their quotations are for American Wine gallons and so to convert that to Imperial gallons an adjustment is made by adding one-fifth, which makes it equivalent to 25.20 cents. Then at the current rate of exchange, the equivalent price of 25.20 cents is 27.97 cents. Then it was decided that as the Government were more or less guaranteeing the capital expenditures in this plant - you will recall they paid 60% down and the final value to be settled on the completion of the contract - they eliminated the depreciation. That was computed at 50% of the value of the plant, costing one million two hundred thousand, spread over a production of 7 million gallons. Those were mutually satisfactory figures. That came down to 19.28 and then they said with regard to merchandizing expense, as the Government are taking the whole of the production of this new unit, we will make an allowance of a quarter of a cent for merchandizing expense, leaving the net price payable by the Government at 19.03. In other words, it is the Chicago posted price that was used as the yardstick for the alkylate produced at the Calgary alkylation plant.

Q The depreciation is deducted because the Government is guaranteeing the cost?

A The Government paid back 60% and then the contract said that the final determination of the value would be subject to arbitration or mutually satisfactory agreements on the completion of the contract. So they said: "All right, we

R. Donellan,
Dir. Exam. by Mr. Harvie.
Cross-Exam. by Mr. Chambers.

- 6156 -

will eliminate depreciation from the value of this product."

Q What I was really trying to get at was whether the absorption plant should not receive part of the 14.03 cents difference between your field price and the other.

A The Absorption Plant? I do not see any reason why they would. It depends on the viewpoint.

Q It depends on what is the proper price for the 45 pound product?

A Yes.

Q And I understand you are getting the competitive figures?

A The posted price.

.....

CROSS-EXAMINATION BY MR. CHAMBERS

Q Mr. Donellan, have you Exhibit 147?

A Yes.

Q I may have misunderstood you but will you please turn to Schedule B?

A Schedule B, yes.

Q Did I understand you to say the 8.69 cents was tied into or had some relation to the 60% that was paid by the Dominion Government?

A Oh no. I say that that is the deduction for depreciation and that is an assumption on my part, that it was because of the 60% arrangement that that deduction was made.

Q I suggest to you this, that this Schedule B is based on a theoretical plant in Chicago?

A That is right.

Q And that the depreciation referred to in Schedule B is depreciation in respect of the Chicago plant?

Mr. Tolson, have you known him?

Yes.

Q. Now, I am asking you to tell me whether the statement that you made in your letter to the Chicago Board of Directors, dated January 1, 1954, is true or false.

A. The statement is true. I am not sure of the exact date, but I am sure of the content.

Q. It is stated in your letter that you are not sure of the exact date, but you are sure of the content. Is that correct?

A. Yes.

Q. The record shows that you are not sure of the exact date, but you are sure of the content. Is that correct?

QUESTIONS FOR MR. TOLSON

Q. Mr. Tolson, have you known him?

Yes.

Q. I am asking you to tell me whether the statement that you made in your letter to the Chicago Board of Directors, dated January 1, 1954, is true or false.

Yes.

Q. It is stated in your letter that you are not sure of the exact date, but you are sure of the content. Is that correct?

Yes.

Q. On July 1, 1954, I saw that the Chicago Board of Directors had adopted a resolution that was similar to the one that was adopted by the Chicago Board of Directors on July 1, 1954. Is that correct?

A. Yes.

Q. I am asking you to tell me whether the statement that you made in your letter to the Chicago Board of Directors, dated January 1, 1954, is true or false.

Yes.

Q. The record shows that you are not sure of the exact date, but you are sure of the content. Is that correct?

R. Donellan,
Cross Exam. by Mr. Chambers.

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A Exactly, but they want to eliminate the depreciation contained in the Chicago price.

Q Yes?

A The next note I have is cost of buying absorption gasoline laid down at Calgary, broken down as to cost, freight and duty. I have requested by office in Toronto to prepare me a schedule showing that for each year from 1936 to 1944 . It is not available to get by telephone but it will be reported at the next session.

The next one was Coutts or Moose Jaw, did they use absorption and the cost paid. The information I got was that Moose Jaw has used absorption and when I have answered the previous question, it will be shown up in there. I have extended that for Coutts, Moose Jaw and Calgary.

Q MR. HARVIE: That absorption for Moose Jaw did not come from the Calgary plant?

A That is the next question. With regard to the disposition of the absorption product that was manufactured at the Turner Valley absorption plant, every gallon of it is accounted for in this Exhibit 161, I think it was. Yes, Exhibit 161 and in every case, Mr. Steer, the quantities shown as going to the Calgary Processing account went to the Imperial Refinery at Calgary. That schedule which is being prepared, then I will be able to report to you if I bought any for Coutts.

Q There is a standard form of contract which was asked to be filed?

A Yes, I am having some prepared. One was turned over to the Board earlier but it has not been filed as an Exhibit.

R. Donellan,
Cross-Exam. by Mr. Chambers.

- 6158 -

MR. BLANCHARD: I intended to find out if it was filed
as an exhibit.

A It will be here this morning.

MR. HARVIE: Would you like to have that made as an
Exhibit for reference?

THE CHAIRMAN: I think we had better.

MR. HARVIE: Well we will give it a number now.

STANDARD FORM OF CONTRACT
BRITISH AMERICAN OIL COMPANY
LIMITED NOW MARKED EXHIBIT 165.

Q MR. CHAMBERS: That is the B.A. standard gas contract?

MR. HARVIE: Yes.

A I think, sir, that covers all the notes I made. If I have
omitted any question that anybody else asked me yesterday,
I will have to plead guilty to not having done anything on
it.

Q MR. McDONALD: I was thinking, Mr. Donellan, if you could
make available those reports that you have mentioned, copies
of which you are going to file in connection with the 45 pound
product and the absorption gasoline, prior to the next session.

MR. HARVIE: We will distribute them as soon as they
are available.

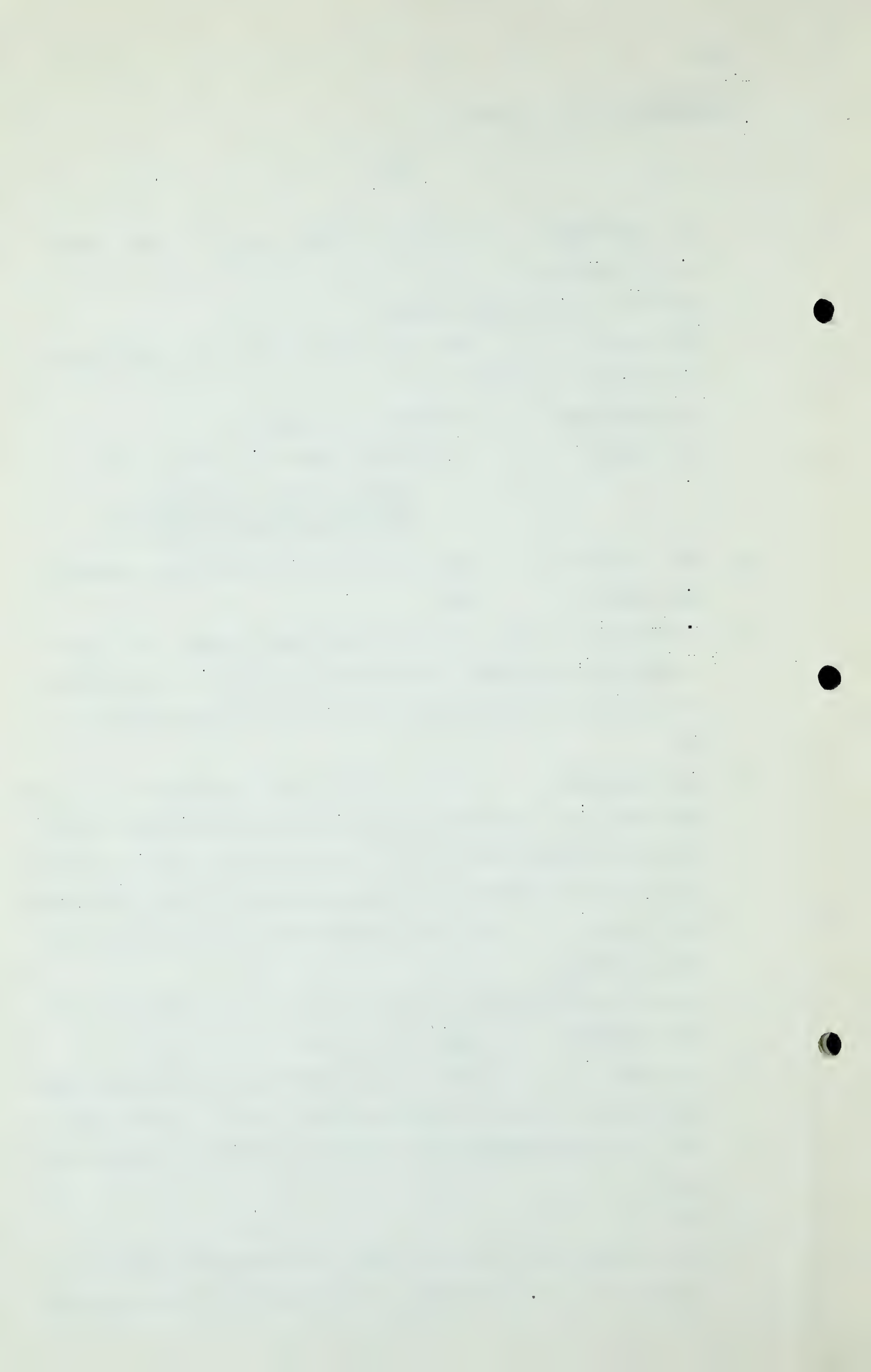
A As soon as they are available I will have them distributed.

THE CHAIRMAN: Anything further?

Q MR. STEER: There is one question I would like to ask
Mr. Donellan, if he can get an answer for us. I note that in
1945 the plant treated six million three hundred thousand odd
m.c.f.

A Yes.

Q What I would like to get is what is the maximum quantity of
gas that can now be treated in that plant with the facilities



R. Donellan,
Cross-Exam. by Mr. Chambers.

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that are constructed, subject of course to Conservation Board rulings?

A Otherwise, have we got the capacity or what is the maximum capacity. Can we handle the maximum capacity under the Conservation Board's ruling.

Q Yes, for example are you on an ascending scale of the treatment of gas. It looks from the statement as though you were. What do you anticipate treating in 1946 for example, seven million or eight million?

A I believe there is an exhibit on the file for that, for the estimate. I will look into the matter. I cannot answer you now.

MR. HARVIE: If I could give you that information. I understand that the plant has been built for the purpose of handling the estimated allowable of that end of the field, whatever that is and I think it decreases each year.

MR. STEER: It decreases each year?

MR. HARVIE: I think that is already in as an exhibit.

MR. CHAMBERS: Exhibit 47 shows what gas is proposed to be handled, as I understand it, that is the one Mr. Stevens-Guille put in from information he compiled from the various parties.

.....

CROSS-EXAMINATION BY Mr. McDONALD.

Q In regard to Exhibit 164, balance sheet, page 1 of that exhibit, Mr. Donellan, you have fixed assets general plant and office equipment, \$738,947.81. Now that figure is the capital investment shown in the exhibit filed by your company, less the high pressure lines?

A This represents the cost of all the new expenditures.

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R. Donegan,
Cross-Exam. by Mr. McDonald.

- 6160 -

Q That is less the high pressure line?

A Less the high pressure line and the water system.

Q And the water system?

A Yes.

Q You have included in that figure your 60% allowance for administration?

A Yes.

Q And the other charges set out

A In accordance with our submission.

Q In arriving at your charges for the water system set out on page 2 of the operating statement of that Exhibit, 15% of the gas gathering cost, you use a capital value of the high pressure gas gathering system of what amount? Is it \$129,000.00?

A No, I based that charge and I explained that yesterday, that the \$45,000.00 represents the cost of the high pressure lines and the water on the basis of our submission, using the inventory value, return on investment, amortization of that inventory value, identically in accordance with the submission.

Q I was thinking it was Mr. Tees' valuation you used for the high pressure system?

A Yes.

Q And the water system?

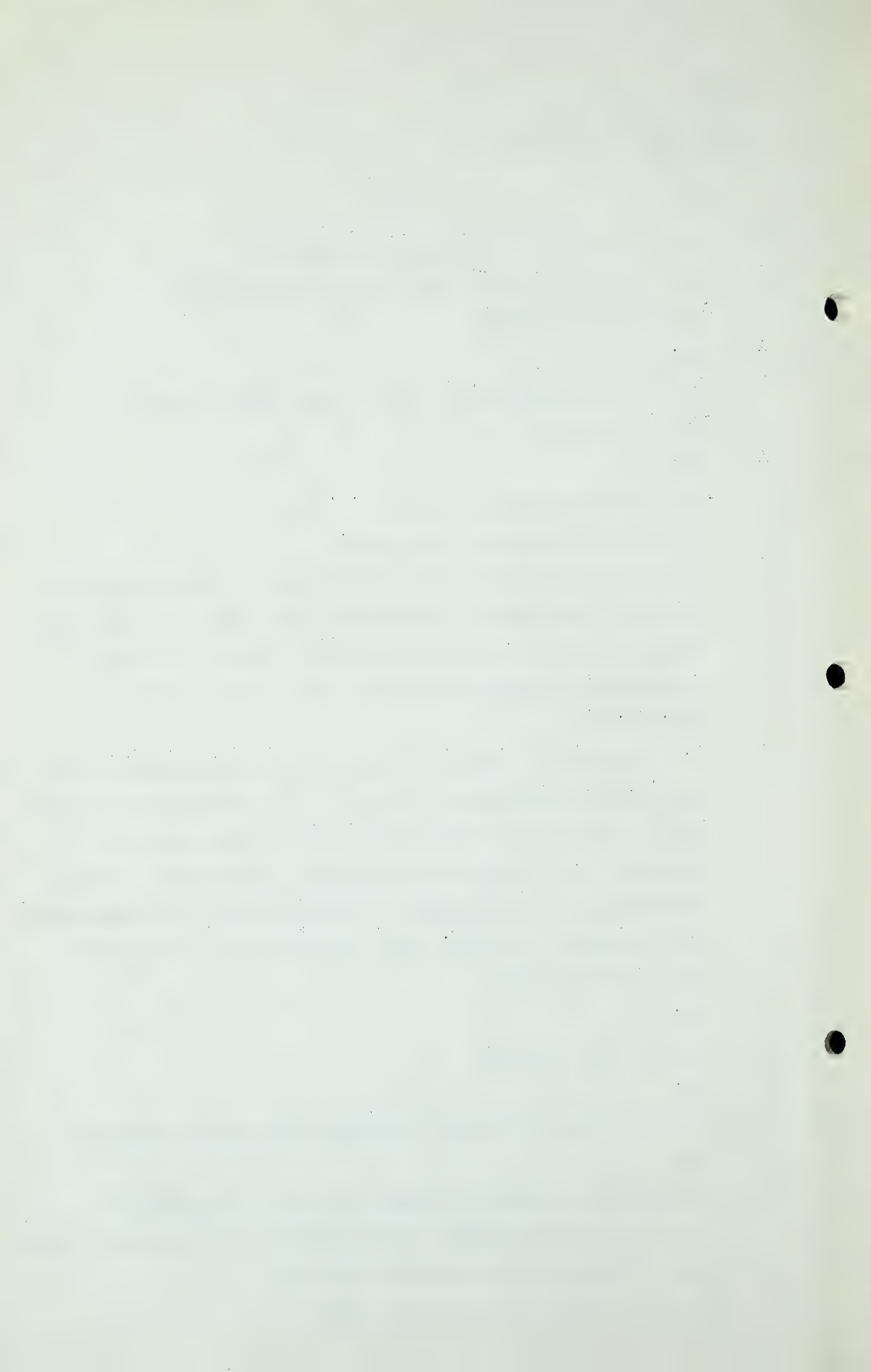
A Yes.

Q The water system valuation is based on Mr. Tees' valuation?

A Yes.

Q You told Mr. Chambers yesterday that your gas gathering costs did not include any apportionment of the Absorption Plant and the low pressure Compressor station?

A No, just the gas gathering line costs.



T-1-8

R. Donellan,
Cross-Exam. by Mr. McDonald.

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Q Your low pressure gathering lines, gathering system?

A No, 15% of the gas gathering lines, high and low pressures.

Q But the low pressure compressor station is omitted?

A Is excluded.

Q Yes?

A Yes.

(Go to page 6162)

R. Donellan,
Cross-Exam. by Mr. McDonald.

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Q And you have neither made any allowance for low pressure lines to in-put wells ?

A No. There is only the allowance for the high pressure line in respect to the G. O. P. gas.

Q There was one operating expense which was not included in your statement, that is rental of in-put wells, on Page 1 here ?

A Yes, that was a matter which was overlooked in our estimates but you will recall on the Board's orders we have to pay producers of in-put wells on the same basis as if they were producing their allowables so I opened up a new section "Rental of in-put wells", but it was not included in our submission. It was just overlooked.

Q Yes, and the amortization of new installations is on the basis of a ten year straight line basis ?

A Straight line basis.

THE CHAIRMAN:

Q Mr. Donellan, I have not considered your Exhibit 164 in detail and it may be the question I am going to ask you is not very sensible but you have the net price of gas at 8.82 cents, shown on the last page ?

A Yes.

Q That is at the scrubber ?

A That is extra to the scrubber.

Q Yes, but delivered to the scrubbing plant ?

A Delivered to the scrubbing plant.

Q Does it include the well head price for gas ?

A It includes an allowance on the basis of two cents for gas.

Q So that if the well head price which I might fix is higher than two cents your net cost will go up ?

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R. Donellan,

- 6163 -

A Accordingly.

Q MR. HARVIE: Mr. Donellan, is that correct, that the 8.82 cents includes a two cent allowance ?

A That is on the last page of the Exhibit.

Q And did I understand you to say that includes the equivalent of two cents for gas ?

A Yes. There is the provision on the second page "Provision for payment re gas acquired from B. A. Oil Company , 3,128,842 Mcf., at two cents, \$62,576.84" plus "Drilling fuel gas sold to drillers 350,672 Mcf at two cents, \$7,013.44."

Q But Mr. Donellan, I am advised that that does not include the two cents; that it is included in your other basis but not in this, I wonder if you will check that ?

A I will have to verify that.

Q Do you want to take a moment to do it right now ?

Q MR. STEER: It seems to me to be obvious from an examination of the last sheet of Exhibit 164 that it does not.

A I beg your pardon, I must retract that statement, yes, the third page deals with the operating expenses in accordance with our submission exclusive of gas. The second page, the operating results, I am sorry, includes a provision for gas but not the third page.

Q THE CHAIRMAN: So that to that 8.82 cents must be added and whatever the well head price is, /to whatever the well head price is must be added the scrubbing charge in order to arrive at the final price to be paid ?

A That is right.

THE CHAIRMAN: That may save me some amount of work when I come to deal with it. Anything further ?

MR. BLANCHARD: I would just like to ask one question.

R. Donellan,
Cross-Exam. by Mr. Blanchard.
Cross-Exam. by Mr. Chambers.

- 6164 -

THE CHAIRMAN: Yes.

CROSS-EXAMINATION BY MR. BLANCHARD:

Q Mr. Donellan, why do you not charge the absorption plant with the low pressure compressing cost ?

A Because, as I have already stated in evidence before, we felt that the low pressure compressing cost was part of the new operation and not part of gathering costs. In other words if we had not gone into this new development we should not have had the low pressure compressing station.

Q But however it is useful in bringing gas that is to be processed to your plant ?

A Yes, it is necessary to bring the low pressure gas to the station.

Q To the absorption plant ?

A Yes.

Q MR. CHAMBERS: Mr. Donellan in that connection as I understand it, this station handles wet gas ?

A Yes.

Q Absolutely ?

A Yes.

Q And I understand that that station is necessary for the wet gas to get to your absorption plant and for the residue gas to get to the market ?

A Correct.

Q So you would agree with this that the compressor station is there to perform a service for your scrubbing plant ?

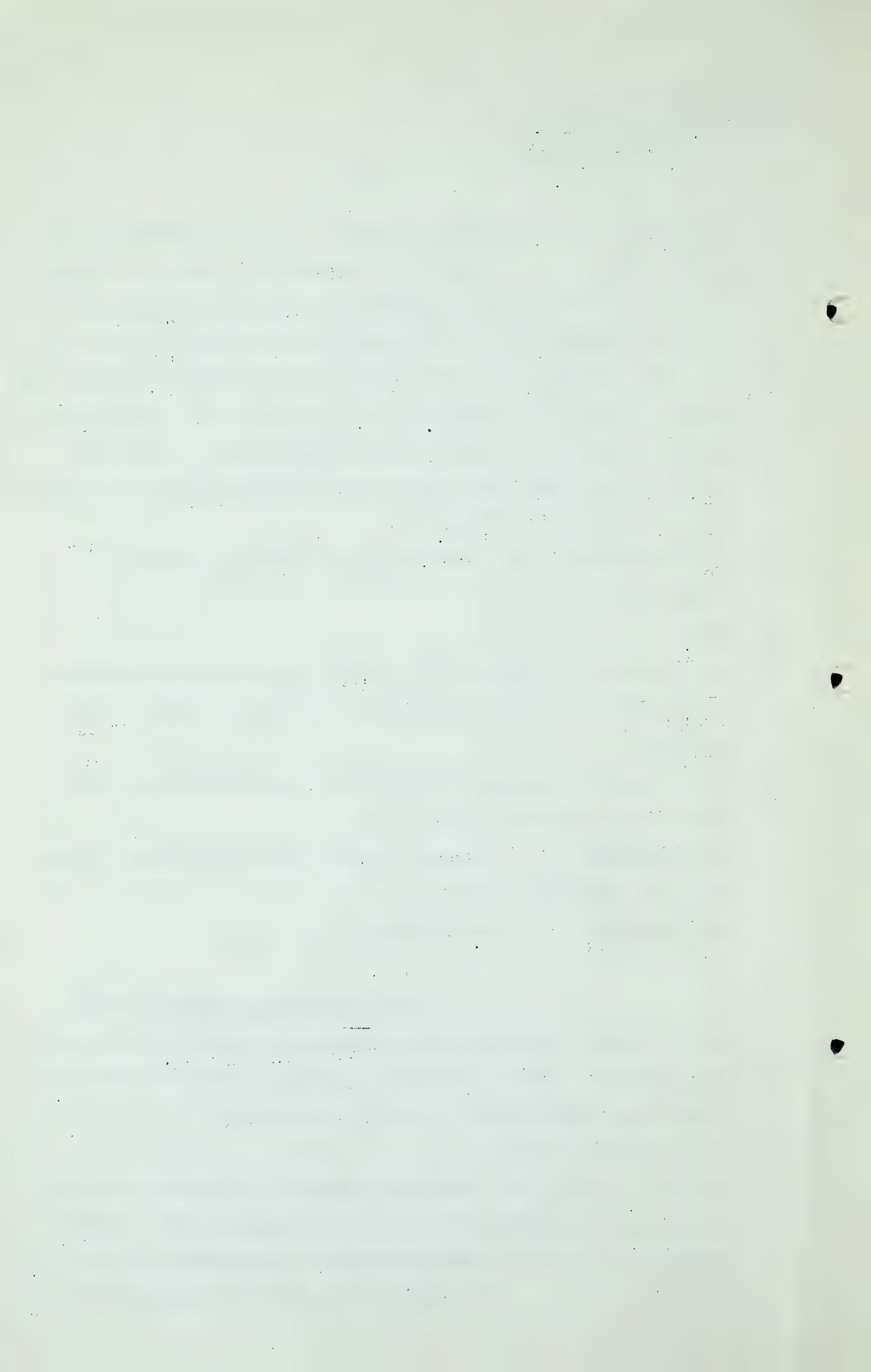
A Well I would agree to this extent that the absorption plant could not abstract the natural gasoline out of the low pressure

R. Donellan,
Exam. by The Chairman.
G. R. McLellan,
Dir. Exam. by Mr. Chambers.

- 6165 -

- gas without the compressing station, so it is necessary, yes.
- Q THE CHAIRMAN: Would it be possible for you, Mr. Donellan, to find out for me what proportion of the high pressure gas and what proportion of the low pressure gas goes to market ?
- A I do not think so. It would have to be a ratio of the incoming gas. There is no identity. We can only say that a percentage of the incoming gas comes from the high pressure lines and another percentage comes from the low pressure lines and apply that resulting percentage.
- Q Your operation in the south end is a recycling program I suppose ?
- A Yes.
- Q And a lot of that gas which is picked up by your low pressure system will be recycled and a lot of it will be lost in the process ?
- A That is as I understand it. The gas is going back into the ground and then coming back again.
- THE CHAIRMAN: Anything further. That will be all, thank you, Mr. Donellan. Next ?
- MR. CHAMBERS: Mr. McLellan.

- GRAHAM RADCLIFFE McLELLAN, having been recalled, Examined by Mr. Chambers, testified as follows:
- Q Mr. McLellan, you have prepared a document which is entitled: "Additional Information re Gasoline Department"
- Tell us what this is ?
- A This is, firstly, the information which Mr. McDonald asked for regarding the details of the assets remaining at the Gasoline Plant No. 2 and also those remaining at Compressor Plant No. 2.
- Then also it is a schedule showing the book



G. R. McLellan,
Dir. Exam. by Mr. Chambers.

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depreciation of our gasoline departments as well as the assets.

Firstly, for the gasoline plant proper the details are given from the commencement of operations to December 31st, 1945, and for the service units, that is the gas gathering lines and the boiler and electrical plants, from 1939 to 1943.

MR. CHAMBERS: I tender that, Mr. Chairman, as an Exhibit.

DOCUMENT PRODUCED HERE MARKED AS
EXHIBIT 166.

MR. HARVIE: Excuse me, Mr. Chambers, I wonder if Mr. Donellan would be permitted just to make one explanation on an answer he gave there.

THE CHAIRMAN: Yes.

MR. DONELLAN: I just made enquiries and I find I was not quite right as to the balance item, I just gained confirmation to that effect, I told Mr. McDonald that the balance sheet item included all items of expense in the submission. There was some question as to the interest during construction. That entry had not gone through on the December balance sheet. I just wanted to make that clear.

Q (By Mr. Chambers to Mr. McLellan) Now, Mr. McLellan, will you please explain the statement and make any comments which you think may be of benefit.

A The first statement is a summary of our asset account for the gasoline plant No. 2.

Q Mr. McLellan, on the very first page ?

A Yes.

Q Under "Major Equipment", the first item, Mr. Stevens-Guille tells me that that "Brown" there should be "Braun" ?

A That is right.

Q Instead of "Brown" ?

C-1-6 M-1-1 - 10.05 A.M.

G. R. McLellan,
Dir. Exam. by Mr. Chambers.

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A That is right.

These are the details as shown by our books of this particular plant at December 31st, 1945, broken by "Major Equipment" and "Installation Charges" and "Miscellaneous Charges".

There is also an item of \$4,709.22 at the bottom which is deducted in view of the fact that we deducted on our schedule "J" in Exhibit 156 I think it is, this item in error. It should not have been deducted.

Q That is Schedule "J" on Page 2, Schedule "J" of Exhibit 156 ?

A Yes, and it should have read two hundred and ten thousand instead of two hundred and five thousand.

The next sheet is a summary of the assets comprised in the No. 2 Compressor Station as at December 31st, 1945.

Q By the way, this No. 2 Compressor Station, as I understand it, was located at the site of the No. 2 Absorption Plant ?

A That is what I understand.

Q And is not now in use ?

A No, that is right.

Then I have schedules attached giving the details of the assets and depreciation according to the books and in front of those schedules I have a statement reconciling those assets to the balances which I have shown in my Exhibit 156.

Possibly I can read this reconciliation just to clear up the point.

Starting with Gasoline Plant No. 1, Schedule "H" which is found in Exhibit 156 shows balance at December 31st 1945, of \$635,000.00 approximately, to which we must add

G. R. McLellan,
Dir. Exam. by Mr. Chambers.

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intangible costs of moving boilers from No. 2 Plant and cost of installing those at No. 1 Plant, which expense was charged to our No. 1 Gasoline Plant investment account. We later charged that to the boiler plant and that is the way it shows on Exhibit 156. Then there were intangible costs of the No. 2 / Gasoline Plant which was transferred to the No. 1 Gasoline Plant on our books which for the purposes of Exhibit 156 were eliminated from the investment of the No. 1 Plant. It gives us a final balance of \$678,157.05, which agrees with my schedule "O" which is attached to this Exhibit.

Q And am I right in this that the Schedules lettered "O" and onward are schedules to this Exhibit ?

A That is right. The first detail of our classification may be found in Exhibit 156. The others are in this Exhibit. Gasoline Plant No. 2. The balance at December 31st, 1945 per the Exhibit 156 \$205,827.76, and there were amounts which were transferred on our books to an account for idle equipment. For purposes of the submission these items were still deemed to be at the No. 2 Plant and were so included. Then of course there is the item I mentioned before of the \$4,000.00 bringing us down to a balance in the books of \$63,290.00, and the even dollars I made it are just a coincidence.

The gas gathering lines North. We had a balance for Exhibit 156 of \$457,000.00 odd, to which we have to deduct additions under Project "A" and also sundry adjustments not entered on the books until 1944, but which were adjustments of the 1943 balance. That gives us a net figure of \$58,412.91, bringing the book figure down to \$398,597.92.

Gas gathering lines South. My Exhibit 156 shows \$156,369.74. The additions arising from project "A" and

G. R. McLellan,
Dir. Exam. by Mr. Chambers.

- 6169 -

deductions made in 1944 which are again 1943 adjustments, \$17,490.34 give a book figure of \$138,879.40.

The boiler plant, Exhibit 156, shows \$139,869.35 at December 1943, from which we have to deduct the amounts transferred from Gasoline Plant No. 1 which I mentioned previously on the page before this. You will notice that the amounts do not agree in that the Gasoline Plant No. 1, shows a balance of \$23,294.07 and the boiler plant \$13,448.36. The difference was the amount of money which was expended in 1944 and was so deemed not to be an investment in the boiler plant in 1943.

We also have an adjustment arising from Project "A" in the same type of adjustments which we have in the other balances, giving a figure of \$23,629.97, and a total of \$37,078.33, coming down to the book figure of \$102,791.02.

The electric plant starts with a balance of \$109,733.89, to which we have to add adjustments entered in 1944 and deemed to be 1943 adjustments of \$11,000.00, giving us a total of \$120,884.33.

Compressor Unit No. 1. Balance at December 31st, 1943, \$303,908.47, per Schedule "M" adjustments entered in 1944 but deemed to be 1943 adjustments, \$9,530.54, giving a balance of \$313,439.01.

Compressor Plant No. 3. Schedule "M" shows \$219,720.53 and there were some additions arising through Project "A" again of \$202,582.06, which are deducted, giving a book figure of \$17,138.47, as at December 31st, 1943.

Compressor Plant No. 2. There is a balance at December 31st, 1945 of \$17,865.73, from which we must deduct intangibles, etc., not deducted on the unit method of schedules

G. R. McLellan,
Dir. Exam. by Mr. Chambers.

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but which were deducted on the books. There might be a point of contention as to whether those items should have been deducted for my Exhibit but if I did deduct them I would have to charge them to expense and I let them remain in the asset and charged them but in a longer period. Those are deducted giving us a book figure of \$12,723.59.

Then the schedules themselves, starting with Schedule "O". My copy is not so good here apparently. Starting with Schedule "O" giving the details of the gasoline plant No. 1 to the end of 1945, and Schedule "P", giving the details of the gasoline plant No. 2, end of December 1945. Schedule "Q" gives the details of gas gathering lines North and gas gathering lines South. Those are from 1939 to the end of 1943.

Schedule "R", boiler plant and electric plant 1939 to 1943.

Schedule "S", compressor plant No. 1 and compressor plant No. 3. In the case of No. 1 from 1939 to 1943 and No. 3 from 1942 to 1943.

Schedule "T" is the compressor station No. 2 from 1937 to 1945.

Schedule "U" is the North return fuel line from 1944 to 1945.

I might point out that Schedule "O" in the second last column, show red figures under deductions of \$93,298.07 in 1944, and in 1945, \$9,865.02. Included in those figures are two amounts which were received from the A.W.S.C. and are shown as depreciation on this schedule.

Q Now Mr. McLellan there were various matters that arose during your previous cross-examination and in respect of which you were to obtain or endeavour to obtain some information ?

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G. R. McLellan,
Dir. Exam. by Mr. Chambers.

- 6171 -

A Yes sir.

Q And one of them was, "Has Royalite any customers for its natural gasoline other than the Imperial Oil" ?

A What was that again.

Q Has Royalite any customers for its natural gasoline other than Imperial Oil ?

A I do not think I was able to find that out.

Q Sir, I think that the answer is directly no, but I am going to pursue that a little further. For instance, it is a matter that Mr. Donellan mentioned yesterday. Although under ordinary circumstances there is only one customer, but I am not just too sure what the position is. Do you know if there is a free market for natural gasoline in that people can come and bid for the price. Have you been able to find that out yet ?

A No, I have not, but my own personal opinion is that there are two refineries in Calgary and it would seem to me they would probably be unable to bid against each other. That is just my personal opinion that is all.

Q Now on Page - well for the purposes of the record I am referring to Volume 74, Pages 6019 and 6022 and as I understand it from enquiries that you made of Mr. Stevens-Guille you are informed it is not yet known what type of product will be made to meet the post-war predictions ?

A That is what he tells me.

Q In other words it is still in the laps of the Gods, so to speak ?

A And he also told me I might mention at this point. I do not think we have it. I think Mr. Blanchard asked me if the equipment would be of any further use in the future and I said I did not know and I asked Mr. Stevens-Guille and he tells me that nobody knows.

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Q MR. BLANCHARD: What ?

A He tells me that nobody knows.

Q MR. CHAMBERS: At the moment your information is that they are manufacturing the heavier product ?

A That is right.

MR. HARVIE: What is that ?

MR. CHAMBERS: They are making the forty-five pound product.

MR. HARVIE: That is the lighter product ?

MR. CHAMBERS: We refer to it as the heavier product. It is the forty-five pound product.

Q Volume 74 for the purposes of the record, Page 6025. As I recall it you were asked as to settling that amount of \$181,000 and you have made some enquiry about that.

A Yes, I am informed it was settled between the Auditor of the Treasury Branch acting as the agent for the A.W.S.C. and Mr. Trammel of our Company.

Q And Page 6030 of Volume 74. Some information I think arising out of the questions there asked. Now I do not want to appear to be giving the evidence, but I think probably I can shorten it. As I understand it you have made enquiries, Mr. McLellan, as to the method in which Royalite deals with the pipe line loss?

A Yes, it was not clear at the time we were discussing it just how the mechanics of this pipe line were.

Q And as I understand it the Valley Pipe Line delivers to the refinery in Calgary for Royalite's account 98½% of the absorption gasoline that it receives from Royalite ?

A That is right.

Q And the other 1½% or whatever balance it is after the line loss becomes accounted for is delivered to Valley Pipe Line's own account ?

A Yes, and if they do not deliver the 98½% they have to account

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for the difference.

Q And that Royalite only receives payment for $98\frac{1}{2}\%$ of the absorption gasoline that it delivers to the Valley Pipe Line?

A That is right.

Q But that Royalite in settling with the producers pays them 20% of the actual production of the plant?

A That is right.

Q In other words, the Royalite plant, or Royalite from its 80% absorbs the line loss?

A Yes, in its 80%.

Q MR. STEER: They differ in that respect from B.A.?

A Yes.

Q MR. CHAMBERS: And then there was the matter, Sir, of the various forms of contracts.

THE CHAIRMAN: Yes.

A We have first what we call the Number 1 contract, which was used at the No. 1 Gasoline Plant. And we also have a Number 2 contract which is used at the No. 2 Gasoline Plant, was used, I should say, and in later years there was a No. 3 contract. I think there were only one or two customers on this No. 3 contract. And we now have a No. 4 contract which, although this has not been executed with the various producers, it is in force, that is the method of payment is on this contract which, however, has not been executed with any of the producers. Those four comprise all the contracts which have been or are now in force with regard to our Gasoline Plant Department.

Q I wonder if we might tender those as one exhibit, Sir?

THE CHAIRMAN: I was just going to suggest that. Exhibit 167.

A Some of those are pretty old and there are no available extra copies of them. I have a lot of extra copies of Number 2.

Q Of Number 2?

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A Yes.

FOUR BLANK PRODUCER-OPERATOR CONTRACTS
MARKED AS EXHIBIT 167.

NR. BLANCHARD: Just at this point, so that it follows along, I was wondering when the payments provided for in No. 4 contract came into effect. I understand they are being made on the basis of that now?

A That would be in November, 1943.

Q MR. CHAMBERS: Just to clear it up. Am I right in this, Mr. McLellan, that all settlements are now made on?

A No. 4.

Q No. 4?

A Yes.

Q Irrespective of the others?

A Irrespective of the old contracts.

MR. McDONALD: I might point out, Mr. Chairman, that the No. 4 contract is in M-16, a copy of it.

MR. CHAMBERS: I think possibly it is. It has not been filed as an exhibit. That is not before the Board yet.

Q MR. HARVIE: In cases when you change from 1 to 2, and 2 to 3, in all cases you paid on that contract?

A Up until 1943, November, 1943.

Q MR. STEER: Would you be able to tell us how many of those contracts were outstanding for the various years?

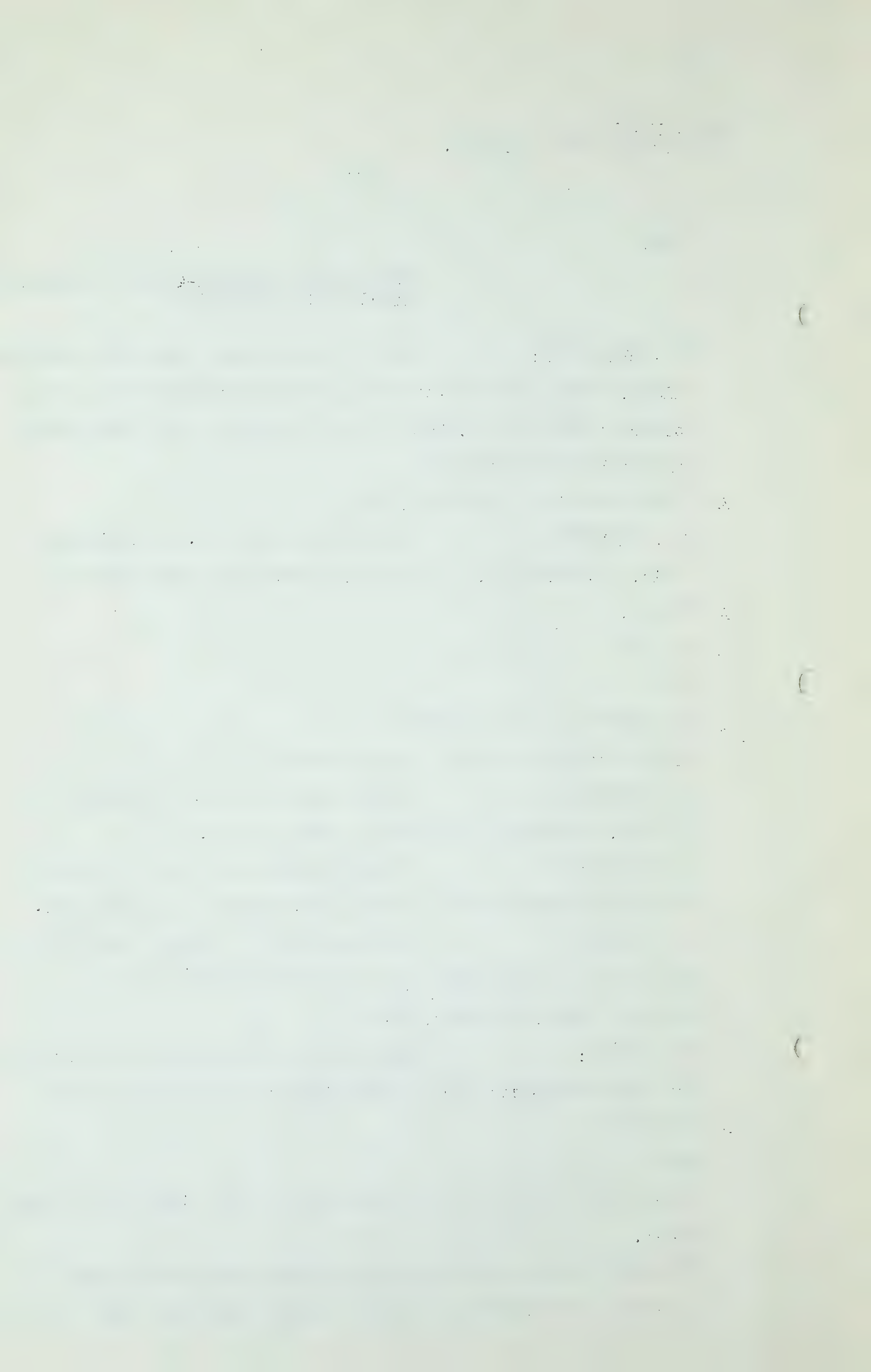
A How many?

Q Yes?

A I could tell you that but I have not got the information right here.

Q From 1938 on how many of those contracts were outstanding?

A I do not know the exact amount. I could find that out.



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MR. CHAMBERS: I do not want to appear to be objecting, but I do not think that Mr. McLellan knows how big a job that is. It is going to be a bigger job than Mr. McLellan surmises.

MR. STEER: I was under the impression that there were very few of them.

THE CHAIRMAN: Until recent years it was my impression there were only a few.

MR. CHAMBERS: Well, we will see about that.

A We have one with pretty nearly every well that was delivering.

Q MR. STEER: A great many of those wells are controlled by the Royalite Company itself?

A Yes. Mr. Harvie asked me when we changed from the Number 1 to Number 2, etc.

Q MR. HARVIE: Yes.

A We did not change from contract to contract. If they were on Number 1 we continued right through until November 1943. If they were on Number 2, they continued right through, and Number 3 just the same way.

Q That is, until in November 1943 when Number 4 came into effect?

A Yes.

Q MR. CHAMBERS: And if he, if a party signed the No. 1 contract he stayed with it?

A Yes, he stayed with it if he signed it.

Q And No. 2, he stayed with it until changed to No. 4?

A Yes. There might be the odd one that changed, but the majority kept on.

Q Now, going to Volume 74, Page 6032. I think it is already on the record, but in order to collect it again in one place, I am going to take you through this. As I understand it, the amount that Royalite paid to the Conservation Board under that compensation scheme was \$196,584.31?

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A That is right.

Q And then Royalite, as a producer in the Valley, received back from the Conservation Board, as its portion of the moneys of the distribution by the Conservation Board, the sum of \$55,746.13?

A Yes.

Q And without being too specific in this, is this right, generally speaking, that the amount when it was distributed went primarily to the producers of crude wells?

A That is right. There were some gas wells and some gas acreage which received its payment. The majority are the crude wells.

Q Now, can you tell us how that \$196,584.31 that was paid by Royalite to the Conservation Board was charged up on Royalite's books?

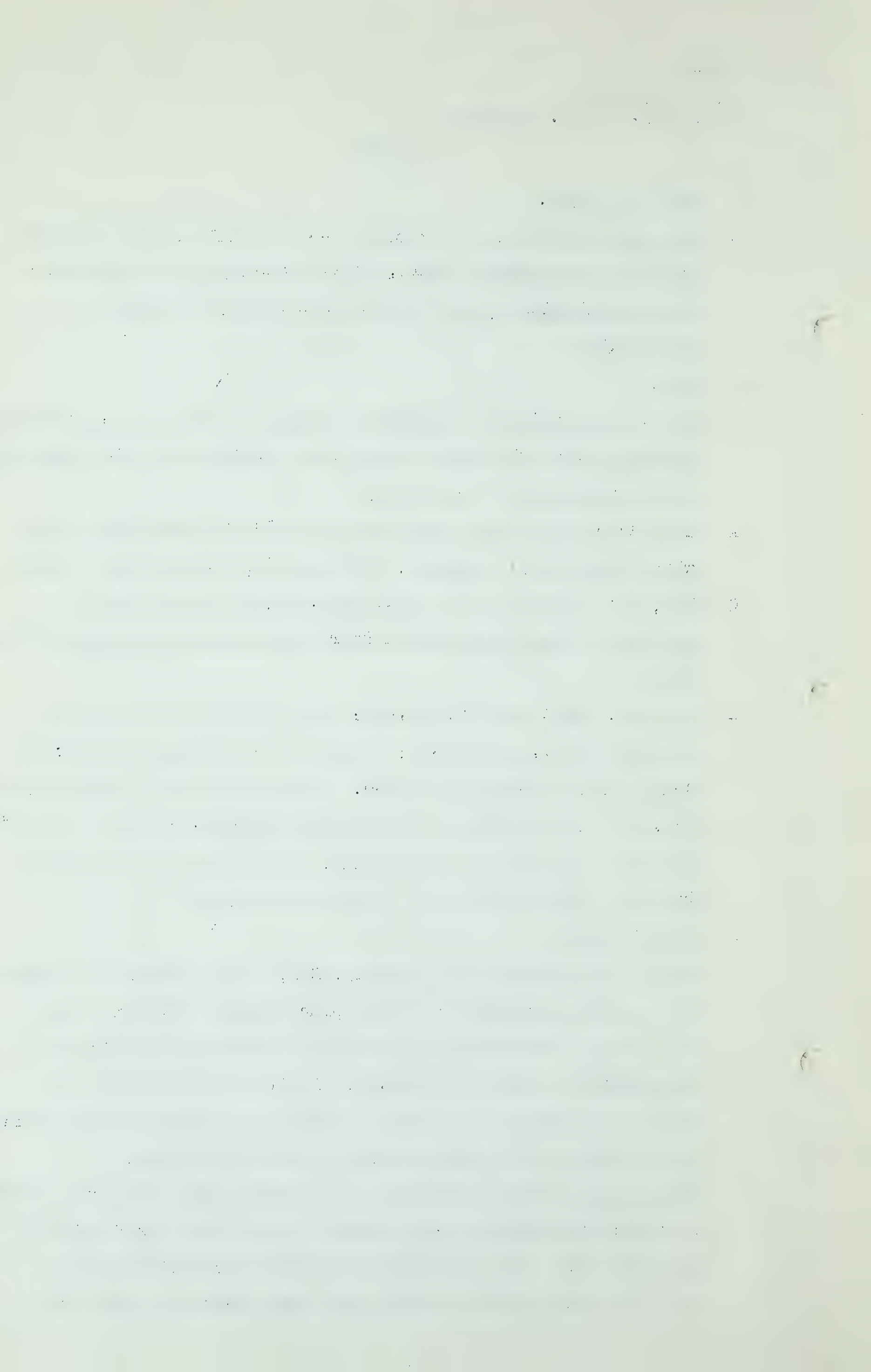
A Yes sir. The total of \$196,584.31 was divided as follows:-
Gasoline Plant, \$96,696.59; Residue Gas division \$96,224.82;
Crude Oil Department \$3,662.90. That is the total distribution.

Q Now, as I understand it, this \$55,746.13 which Royalite received back as the owner of crude wells, that amount when received back was credited to your crude oil department?

A That is right.

Q Now, I am referring particularly, Sir, to the information asked for in the discussion that took place at Page 6034 in Volume 74. Now, the Conservation Board in assessing or making up or arriving at that \$196,584.31, did it give any indication that it had taken into account profits or revenues attributable to the wells and to the Gasoline Division and so on?

A Well, what they did indicate was, I think their statement called it "Estimated Profits Attributable to Gas which was Scrubbed" and also gas which was processed in the absorption plant, and there was a small revenue which was deemed to come from



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the Crude Oil Department, which was the three thousand odd dollars.

Q Now then, one other thing that you were to get, I think it was on Page 6046, Volume 74, the prices which the Royalite absorption plant receives for its product. Have you got that yet?

A I got it but it looks as if I neglected to put the sheet in my file here. I can recall some of the prices. However, I do not know that I should. I can get that sheet over here in a very short time, in very short order.

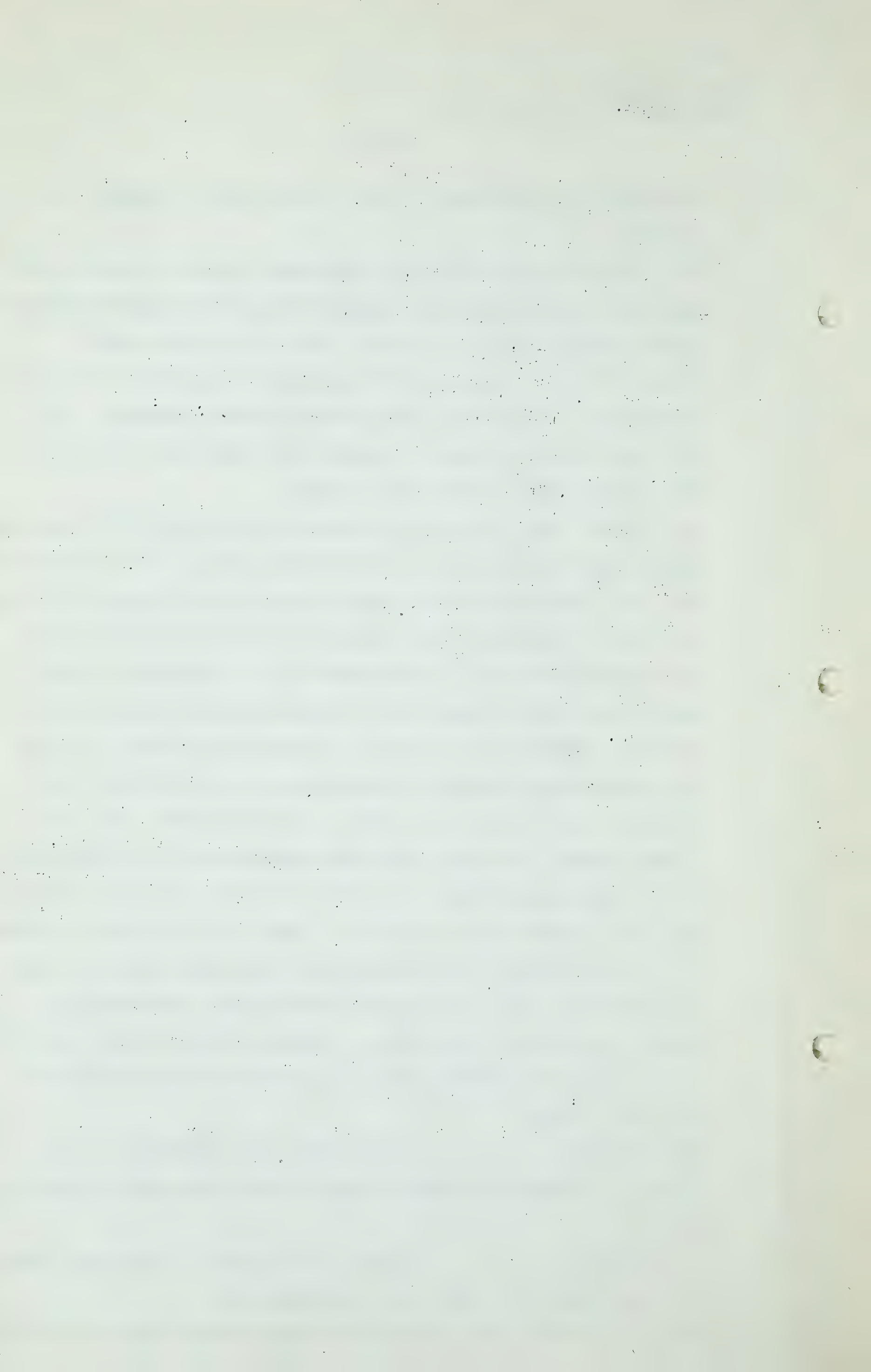
Q All right. Now, there was a question on Page 6017 of Volume 74, about the \$180,000.00 received from the A.W.S.C. As I understand it, Mr. McLellan discussed the matter with Mr. Stevens-Guille, and all Mr. Stevens-Guille could do was to refer him back to the evidence that he, Mr. Stevens-Guille, had already given. And I would like to make this statement myself in that connection, that the payment was received pursuant to Exhibit 147, and any future consequences, I contend, are to follow from that contract and depend on the terms of the contract. In other words, nobody can give the final answer until the arbitration takes place under Clause 11 of the contract. You see, there are two clauses in the contract. There is the specific clause 11 which deals with the valuation of the plant, and then there is Clause 22, which is a general arbitration clause and, of course, applies to Clause 11. That, I think, covers everything I can get at the moment, Sir, but I will get Mr. McLellan to get that other.

THE CHAIRMAN: I was under the impression that I asked Mr. McLellan to bring a copy of the Conservation Board's Orders.

MR. CHAMBERS: Oh yes. I am sorry. I have got that.

Q You have that there have you, Mr. McLellan?

A Yes, I have just got them from the Conservation Board this morning.



T-2-1 10.35 A.M.

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I have not divided them up.

Q What is the first one you have?

A I have first the Order-in-Council which is O.C. 1289-43 and the two orders referred to in that Order-in-Council which are number 139 and number 300.

Q The first exhibit will be the Order-in-Council, O.C. 1289-43, which is dated August 10, 1943 and there are two Conservation Board orders, numbers 139 and 300 which are referred to in the Order-in-Council?

A Yes.

MR. CHAMBERS: I would suggest that they be marked as one exhibit.

THE CHAIRMAN: As one exhibit, yes.

A There is also an Order-in-Council 201-45 which might also go in.

MR. CHAMBERS: Order-in-Council number 201-45, dated February 1st, 1945.

ALL THESE ORDERS-IN-COUNCIL
NOW MARKED EXHIBIT 168.

MR. HARVIE: I understand these are dealing with the settlement made by Royalite.

THE CHAIRMAN: I assume so, yes.

MR. STEER: Those do not deal with the settlement. Those deal with the original direction.

A Deal with the original Order.

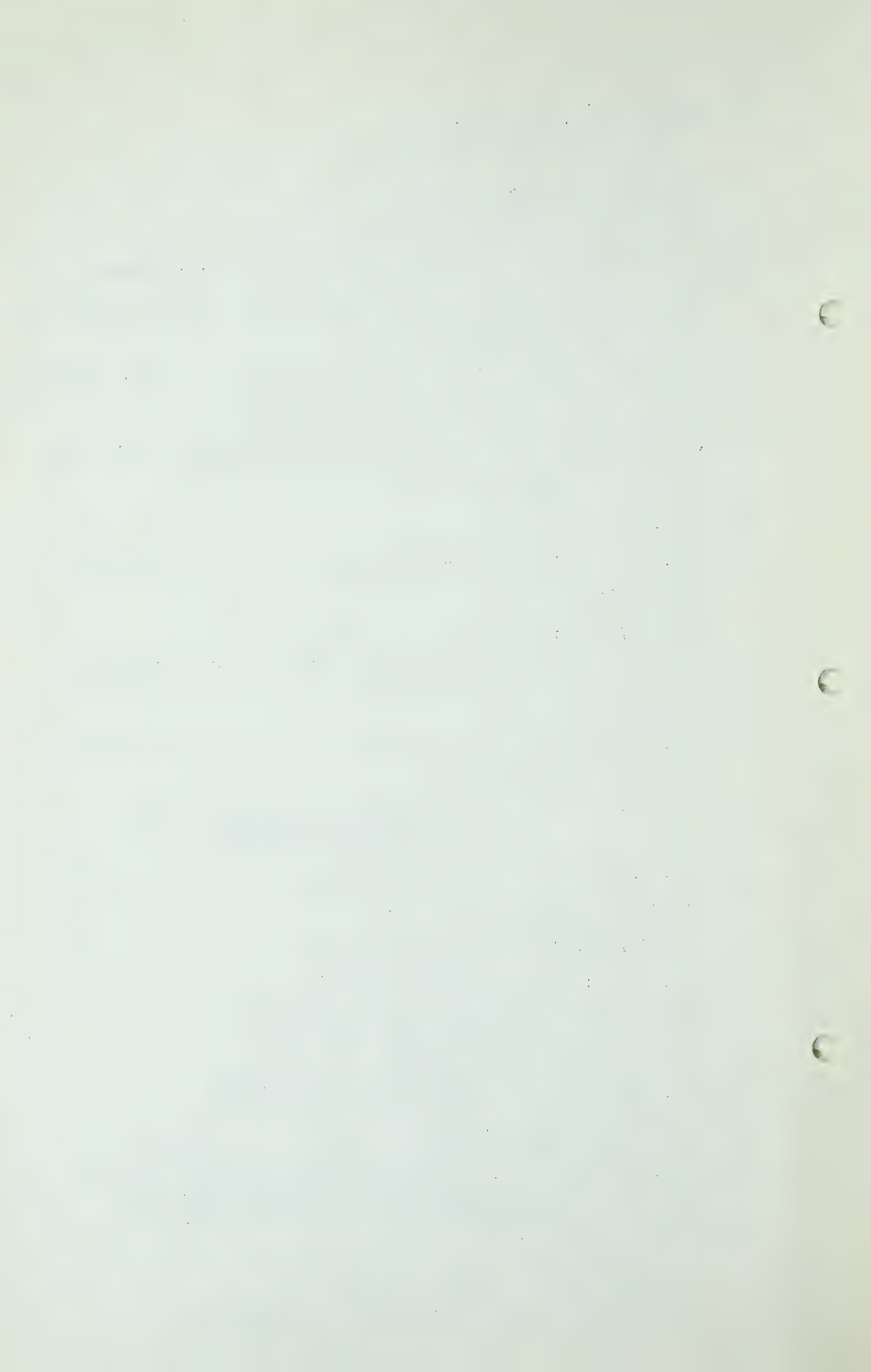
Q MR. CHAMBERS: That sets up the scheme?

A This is the scheme, yes.

MR. CHAMBERS: I wonder if we could recess for five minutes so that Mr. McLellan can phone and have that Exhibit sent up.

THE CHAIRMAN: Yes, surely.

(At this stage there was a short adjournment.)



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Q MR. CHAMBERS: Mr. McLellan, you have now received the information asked for?

A Yes. In regard to the prices of the absorption product. The prices of the different products are as follows.

Q Are these present-day prices?

A Present-day prices, yes. Propane, 28 cents per barrel; iso-butane, \$2.74 per barrel; normal butane, 28 cents per barrel; iso-pentane, \$2.28 per barrel; normal pentane, \$2.28 per barrel and that averaged out in the year 1945 to approximately \$1.89 per barrel for the total products.

Q MR. HARVIE: What figure did you give for the normal pentane?

A Normal pentane

MR. CHAMBERS: I am instructed that should be normal pentane and heavier hydro-carbons.

A Normal pentane and heavier hydro-carbons, yes.

Q That is the way you should describe it, is that right?

A That is right.

Q MR. HARVIE: What was the figure?

A \$2.28.

MR. CHAMBERS: That is all I have, sir, now.

THE CHAIRMAN: Mr. Steer, have you anything?

MR. STEER: No, sir.

THE CHAIRMAN: Mr. McDonald?

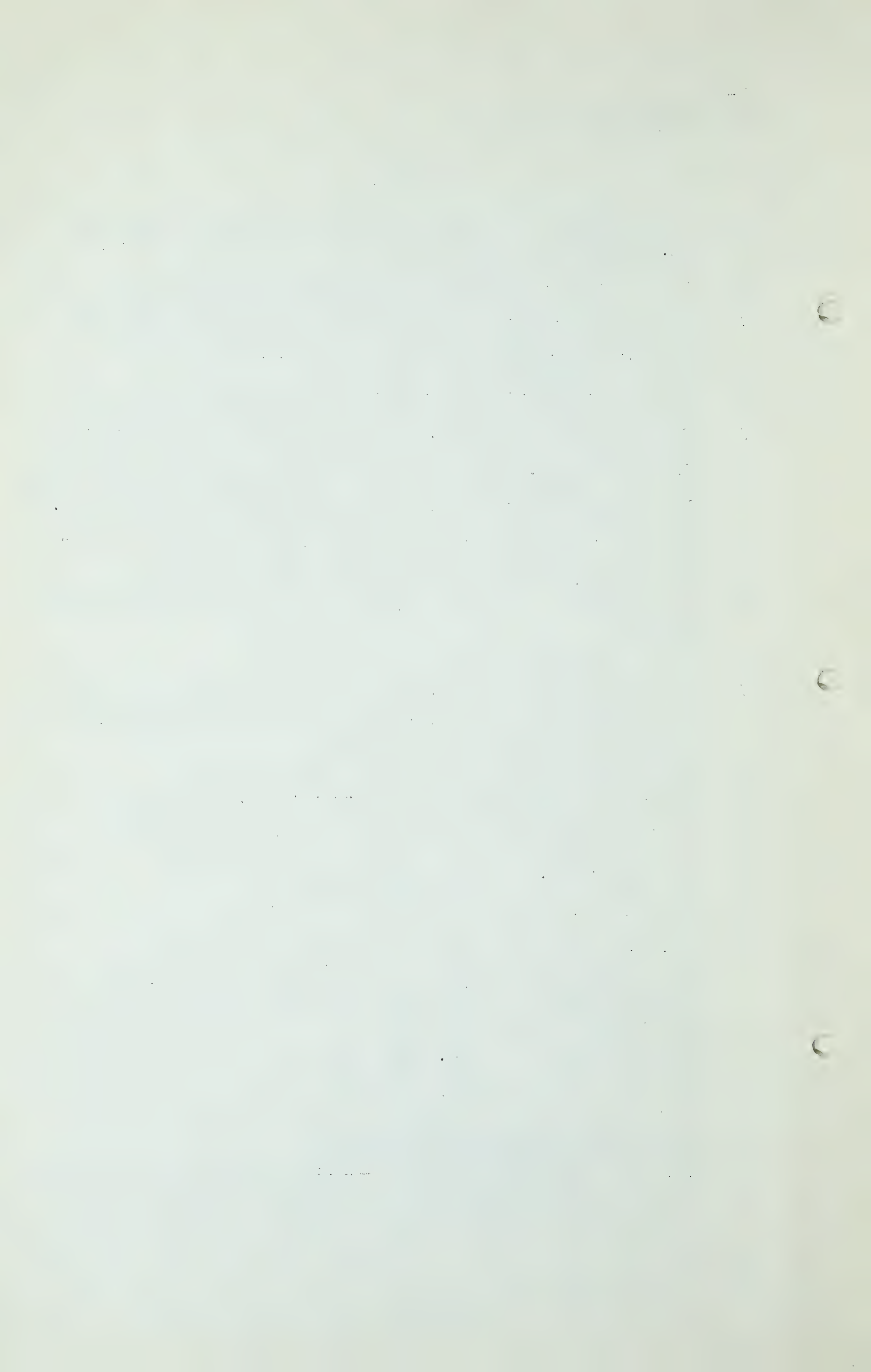
.....

CROSS-EXAMINATION BY MR. McDONALD.

Q Will you look at Schedule O of Exhibit 166? On the assets side you show the balance at the end of the period 1945?

A Yes.

Q \$678,157.05?



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A Yes.

Q As I understand that figure it is made up of assets of which you have credited in \$181,658.53 as the value of the equipment placed in the plant under the Allied War Supplies contract?

A No. The hundred and eighty-one thousand is the amount that was settled upon between ourselves and the A.W.S.C. The total cost was more than that.

Q Well is there anything over and above that in the six hundred and seventy eight thousand?

A Yes, there is the total cost included in it.

Q If you subtract that amount from the \$678,157.05 it will leave you a net investment over and above the amount agreed upon with the Allied War Supplies of \$496,498.52?

A Yes. That is probably right. I have not checked that figure.

Q Those are the figures you gave me the other day?

A All right. They must be right, then.

Q On the Reserves side you have the 1945 balance, at the end of the period 1945, \$561,035.23?

A Yes.

Q Now if you credit in there the amount received from the Allied War Supplies Corporation contract, namely \$108,995.12, it will leave a balance to be met out of the company's own funds of \$452,040.11?

A I cannot agree with you there. I will agree with the figures.

MR. CHAMBERS: You will agree with the arithmetic?

THE CHAIRMAN: You agree with the figures but not with the application of them?

A That is right, sir.

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- Q MR. McDONALD: Now I was interested in what you said that the one hundred and eighty-one thousand dollar odd figure was the figure agreed upon with the Allied War Supplies and did not cover all the investment made for war purposes?
- A That is right.
- Q Now look at Schedule P in the same Exhibit 166.
- A Would you pardon me? I think probably we should mark that statement as being shown by the books of the company. I do not think that appears anywhere on this statement.
- Q I am interested in the fact that in your reserves in 1945 you have transferred to another account equipment of the value of \$135,011.77?
- A No, I do not think that is the figure. My reconciliation in the front I think is the figure, \$137,828.54.
- Q Well this idle equipment account does that mean the assets comprising the balance of \$53,000.00?
- A Sixty-three thousand.
- Q Sixty-three thousand?
- A You are looking at the reserves and I think you should be looking at the assets.
- Q Yes, I am sorry, sixty-three thousand.
- A \$63,290.00 are mainly intangibles and installation costs which are still included in the \$63,000.00. The remaining equipment, that is tanks, etc., the tangible equipment has been transferred to the idle equipment account.
- Q Well are you prepared to say that the assets represented by the \$63,000.00 item are wholly lost? They are labor expended, real estate and things of that kind with no salvage value at all?

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A Well, not without looking at the break-down of that \$63,000.00. I have not got it on my statement here as such. There may be, I think there are some valves and fittings included in that \$63,000.00 which may or may not have a value.

Q And the same applies to your Schedule N in regard to Compressor Plant Number 2?

MR. CHAMBERS: What schedule?

A That will be Schedule T on this Exhibit.

Q MR. McDONALD: Yes, Schedule T. You have deducted the idle equipment?

A No. That is a contentious point I will not argue one way or the other whether that item should have been taken out or whether it should have been left in.

Q Now, Mr. McLellan, with regard to the North return fuel line referred to

A In Schedule U I think.

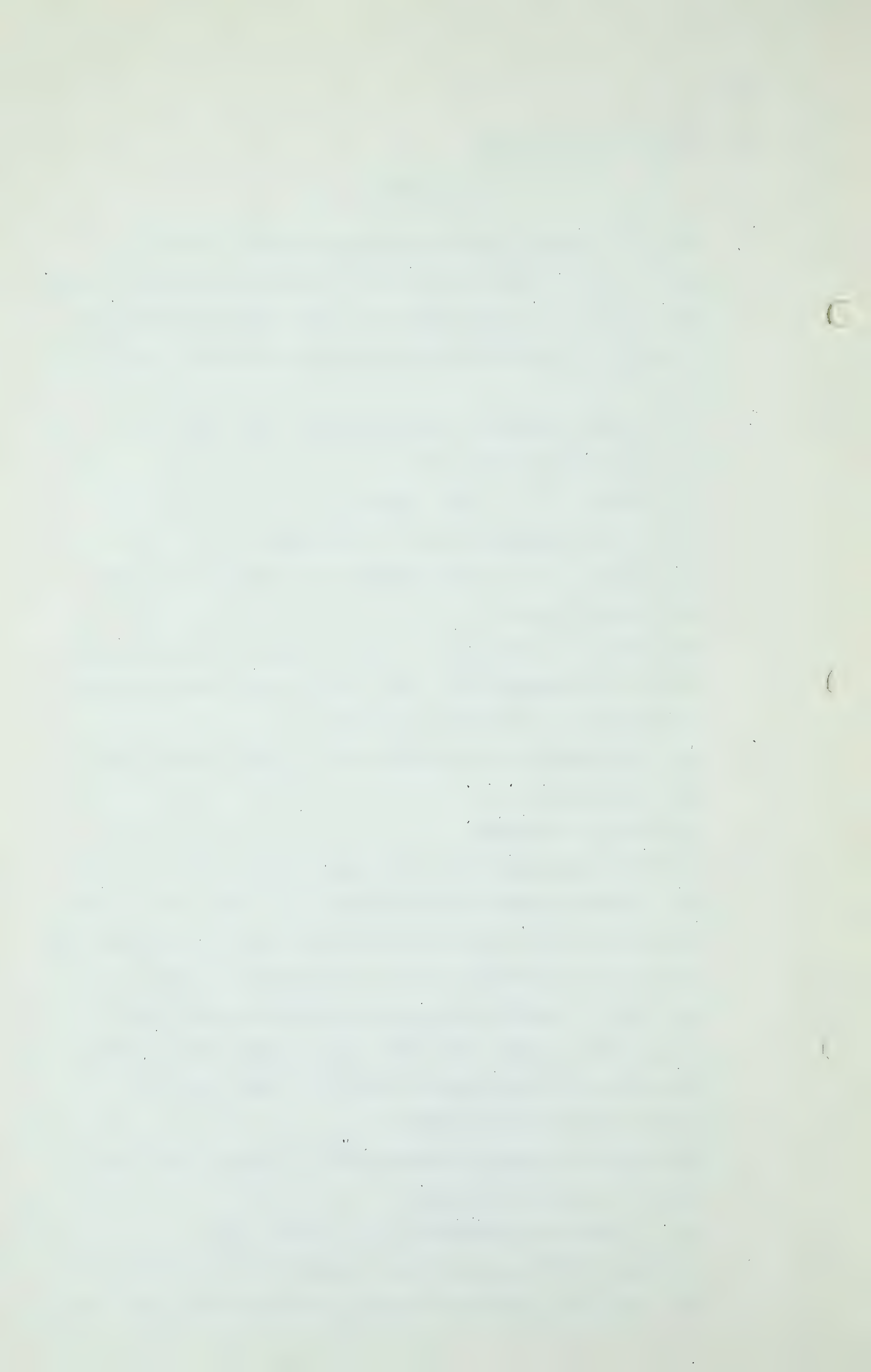
Q You will recollect that in the examination of Mr. Hill he more or less agreed to my suggestion that the loss or the depreciation that would ensue on the taking up of that North return fuel line would be the actual labor of laying it, the labor of taking it up, plus depreciation for use for roughly three years and a half, namely 10%. Now in your calculation of depreciation here up to 1948 you have allowed much more than that?

A 1948 would be in what Schedule, "U", I guess, would it?

Q No that is in Exhibit 156?

A Yes, I think it is Schedule 4 in Exhibit 156.

Q What have you to say as to my suggestion to Mr. Hill as being the more reasonable method of depreciating that line



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under all the circumstances in connection with its building and use and the method

A Would you mind telling me what your method is? I do not think I am exactly clear on just what you propose to do.

Q If you take the line at its investment cost, \$75,584.00, and take from the cost the cost of installing the line, the cost of taking it up and 10% of the value of the pipe which is depreciation for $3\frac{1}{2}$ years?

A I would not just take any 10% figure. I would want some engineering advice similar to that which I have obtained.

Q I was going on Mr. Hill's engineering advice.

A Well I mean, that is for the engineers. If they differ, I take no responsibility.

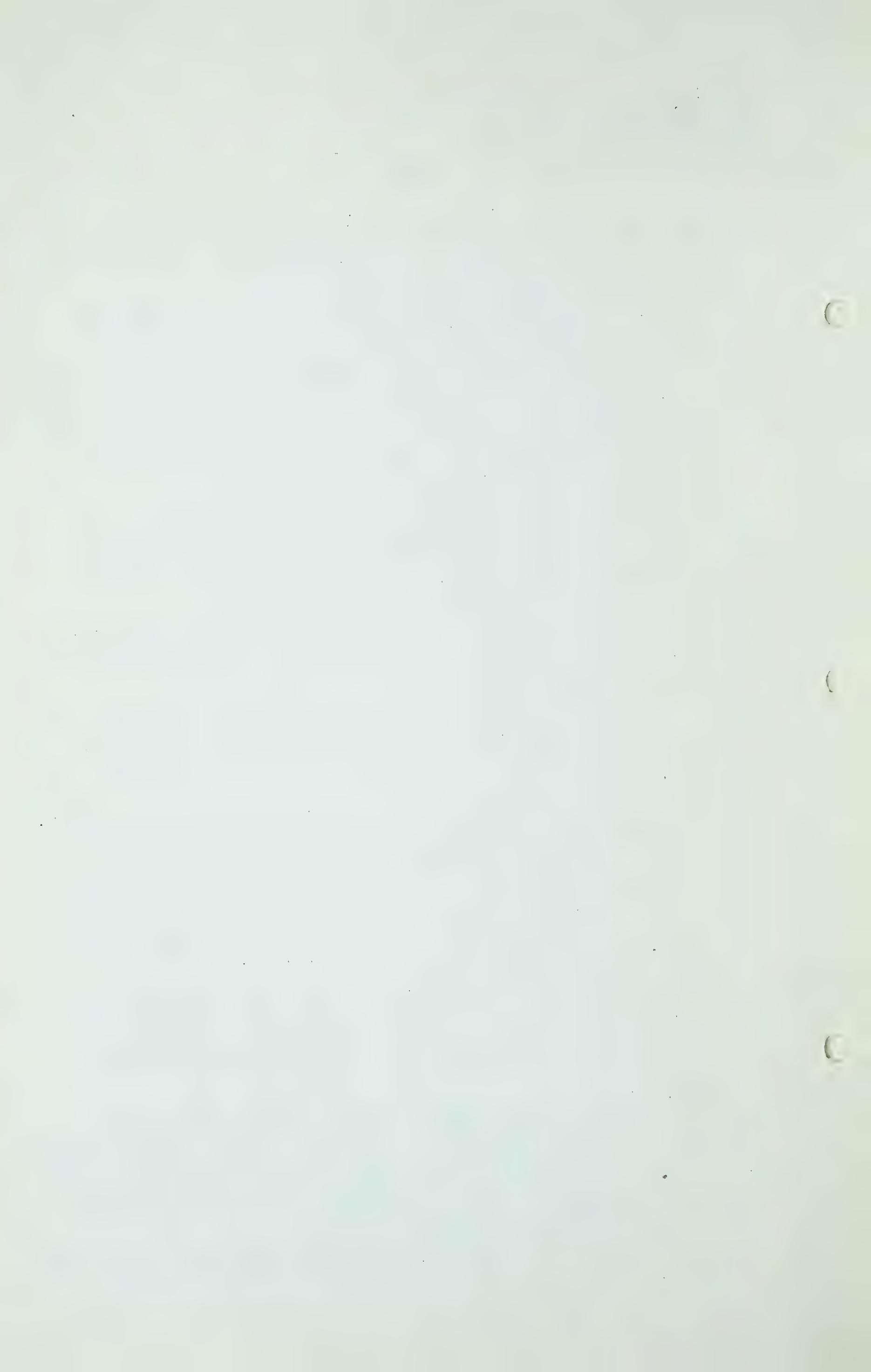
Q As I understand these prices that you gave me for this 45 pound product, those were prices presently being paid to Royalite?

A Those were not the prices for the 45 pound product as such. I mean I think this \$2.74 could be applied to the 45 pound product and these others probably are - well I am getting a little on a subject that I do not know an awful lot about now. I think probably they are

MR. CHAMBERS: Mr. McDonald, will you allow me to suggest that Mr. Stevens-Guille should answer that right now?

MR. STEVENS-GUILLE: Those were unit prices from which combination the price of the 45 pound product is calculated, after the product has been analyzed to obtain a percentage of each of those components present.

MR. McDONALD: Yes, that is the information I want. That is all I have.



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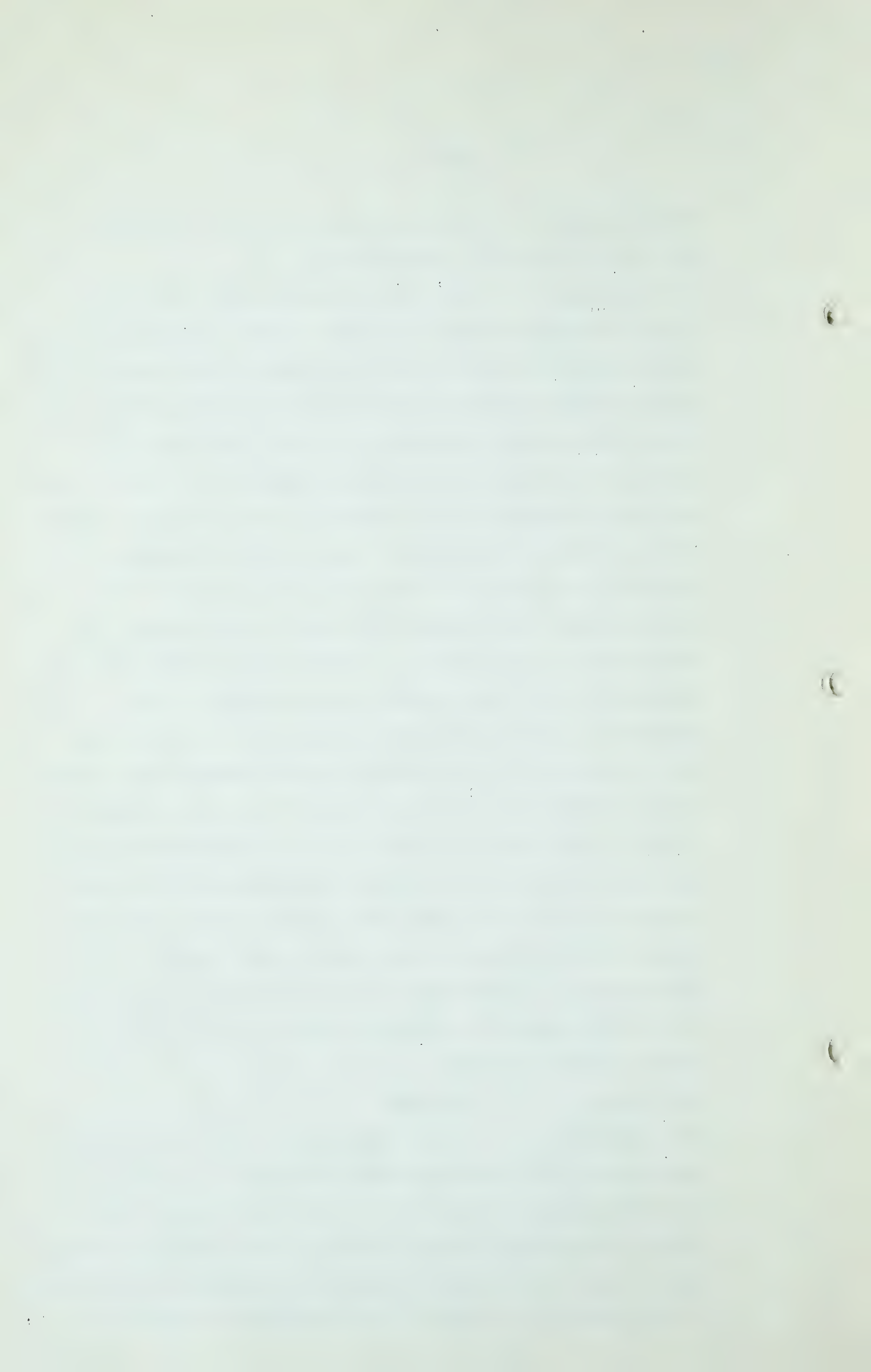
THE CHAIRMAN: Anything further for Mr. McLellan?

All right, thank you, Mr. McLellan.

MR. McDONALD: There is one matter, Mr. Chairman, I think I should deal with and that is that Counsel have given consideration to the matter of the Appeal now pending in the Supreme Court of Canada with regard to the Order made by the Board following my application that the Gas Company do produce the balance sheets of the company, the Profit & Loss accounts, statements with respect to Gas Sales and revenue for Gas sales; a statement of the operating expenses and a statement with regard to the rate base employed by the company since 1931. Since that time, a great deal of the evidence which I intended to obtain on this motion has been furnished by the Gas Company on application to them. I refer particularly to the Gas Sales and the Distribution of the Gas Sales as between classification and sundry other items of that kind. Also there have been filed now as Exhibits Orders of the Board of Public Utility Commissioners governing the business of the Gas Company. An arrangement has now been reached with Mr. Steer for the Gas Company that the Balance Sheets, Profit & Loss Accounts and Reports to the Shareholders, as printed and distributed by the Gas Company to its Shareholders be filed as Exhibits for the years 1938 to 1945 inclusive.

MR. STEER: Not 1945.

MR. McDONALD: I mean 1944. If the 1945 statement is available at the time we arrive at Argument, it will be furnished also. In view of the fact that carrying the Appeal through will involve possibly more time than we want to give to it and it will quicken the conclusion of the case, I am agreeable on behalf of the Producers to accept the



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evidence tendered as being sufficient to satisfy my motion.

MR. HARVIE: I think we jointly agree with that application of Mr. McDonald's, and perhaps it would be well for the purposes of the record to say that we concur in what Mr. McDonald is doing, on the understanding, of course, that in doing so we are not admitting that that information is relevant to the proceedings, but I think we could gain more and save time by proceeding in that way.

MR. STEER: I have no desire to argue the relevancy or irrelevancy of the evidence, but I have agreed that the documents tendered by Mr. Chambers two days ago shall go in evidence, and I go no further.

THE CHAIRMAN: Then Counsel can draw such conclusions from those statements as they wish.

MR. STEER: Exactly.

MR. CHAMBERS: And perhaps also the Board.

MR. STEER: And perhaps the Board and me.

THE CHAIRMAN: You have those statements have you, now, Mr. Chambers?

MR. CHAMBERS: I have a certified copy, certified under the hand and seal of the Registrar of Companies.

THE CHAIRMAN: 1938 to 1944?

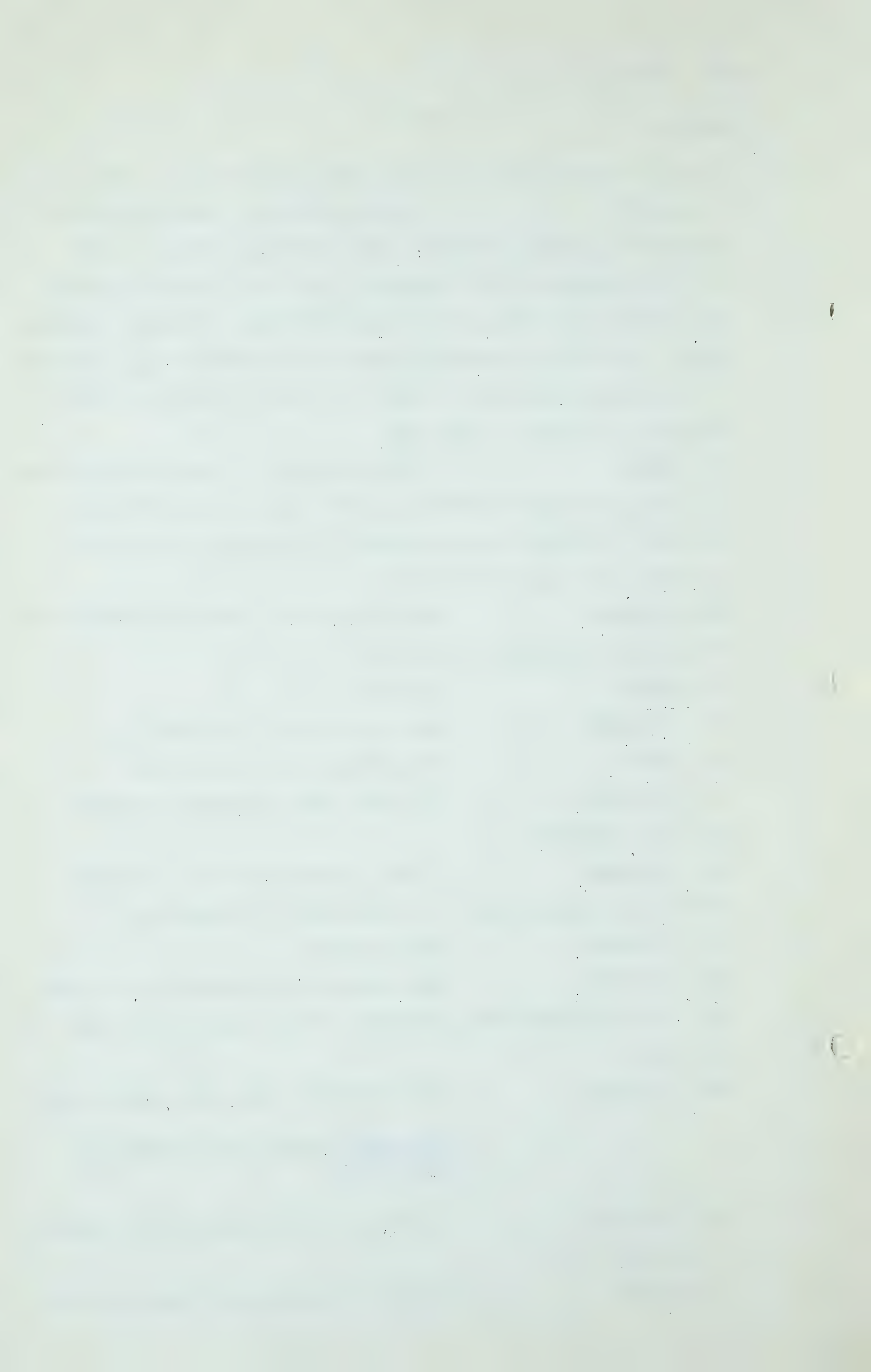
MR. CHAMBERS: Yes, and as I understand it, if 1945 is available before the conclusion of this Hearing, we will put it in.

THE CHAIRMAN: One exhibit for them all, Exhibit 169.

DOCUMENTS PRODUCED HERE MARKED AS
EXHIBIT 169.

MR. McDONALD: I presume the Gas Company will supply us all with it?

MR. STEER: We will if we can, and that is as far



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as my undertaking goes.

MR. HARRISON: Without our buying shares?

MR. STEER: Yes.

THE CHAIRMAN: Well, I suppose I have them now in my office as Chairman of the Public Utilities Board.

MR. STEER: I beg your pardon? I did not catch that.

THE CHAIRMAN: I will have them on my file in my capacity as Chairman of the Public Utilities Board.

MR. STEER: Quite so.

THE CHAIRMAN: But it is only fair to say that I have never looked at them since the application was made.

MR. STEER: I am sure of that.

THE CHAIRMAN: Have we anything further to go on with this morning?

MR. HARVIE: We have nothing further.

THE CHAIRMAN: Well the position, Gentlemen, is, that we cannot sit for the next three weeks, and Mr. Harvie has asked me if I would make it Tuesday, the 16th of April instead of Monday, the 15th of April, Monday is the 15th of April?

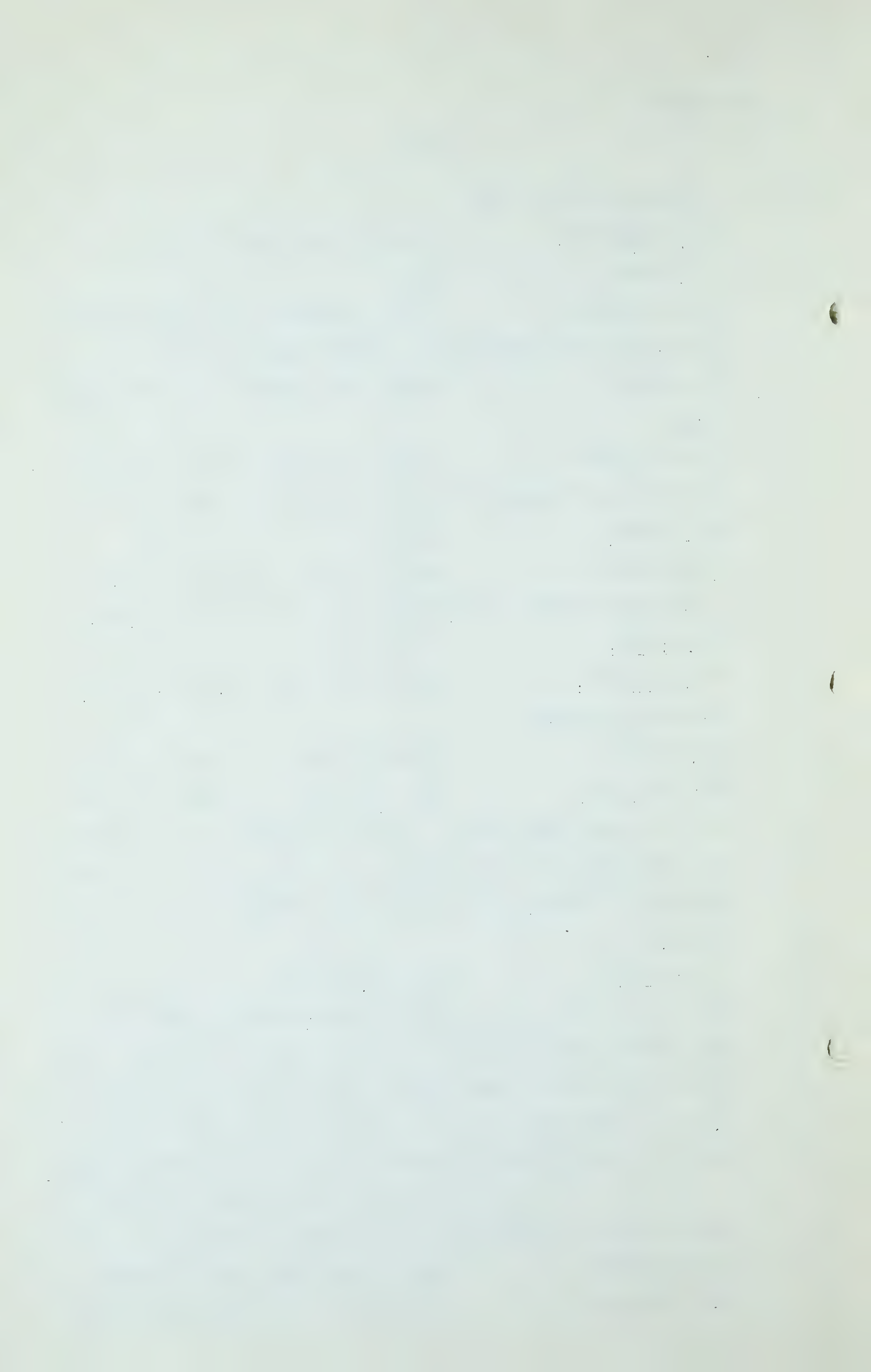
MR. STEER: Yes, Mr. Chairman.

THE CHAIRMAN: Easter will intervene then, and the next week we will resume sittings on Tuesday, the 23rd, and I will expect that during those two weeks of the 16th, and the 23rd of April, that we will finish all the evidence on all aspects of the Inquiry, whether it be gas or absorption plant.

The Consolidated people are going to file a brief with relation to the Nitrogen Plant.

MR. CHAMBERS: Will we have that ahead of time?

THE CHAIRMAN: I think so. They 'phoned me from



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Trail yesterday and they said they would have it in ample time before the 15th. I am afraid it may be somewhat nebulous and will be subject to so many assumptions and hopes, and probabilities, and it may not be of a very great deal of concrete use.

Then I hope the Gas and Oil Products will be ready with their submission, and in fact I shall tell them so.

MR. CHAMBERS: And Mr. Gower.

THE CHAIRMAN: Yes, and Mr. Gower. I am not sure when I am going East, but I imagine it will be about the 27th perhaps, or the 28th of April, and we may be able to get in a few days more in the third week of April, if that time is needed, but I hope you will bend yourselves so diligently to your tasks that we will finish all of the evidence in the two weeks in April. Then Mr. Steer has to go to the Supreme Court of Canada, your withdrawal notwithstanding, Mr. McDonald, and that will probably mean that the argument cannot be held until the month of June. My decision will probably be written by then anyway, but I will be glad to listen to you. How long is argument going to take?

MR. McDONALD: Should we not settle the order in which Counsel should go?

THE CHAIRMAN: I am going to let you do that yourselves, Mr. McDonald. You make your own arrangements about the argument. I do not know how to pick you out as to priority.

MR. McDONALD: The only thought I had in mind, Sir, was this, - those Counsel that are advocating the rate base, that is to say, the Madison, the British American and the Gas & Oil Products, possibly could go first. Then the other part of the argument is that of my own in regard to the producers'

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interest as owners of the gas at the well-head, and then I could possibly be followed by the Gas Company and the City, and Mr. Blanchard wind up.

THE CHAIRMAN: Well I think I can leave it to you Gentlemen to make those arrangements yourselves. I could pick you in order of age.

MR. STEER: I think that suggestion which has just been made by Mr. McDonald is one that we might agree to right now.

MR. CHAMBERS: What is that?

MR. STEER: The order of the argument.

THE CHAIRMAN: That Mr. McDonald has just suggested.

MR. CHAMBERS: That is all right with me.

MR. HARVIE: And there will be, of course, an opportunity given, I presume, to reply?

THE CHAIRMAN: Oh yes, there will be no limitation and I imagine there will be no holds barred either.

Then when we come to the argument, I think perhaps we should change our hours, instead of sitting three and a half hours in the morning, because we are not going to need daily transcript as much as we do now, but I will do whatever you wish, two and a half hours in the morning and two and a half in the afternoon, or two hours each, if you wish. One man doing a two and a half hour argument and then going on again in the afternoon.....

MR. CHAMBERS: Four hours is plenty long enough, it is a pretty long stretch.

THE CHAIRMAN: So I will do whatever you wish with regard to that, but I think we will sit mornings and afternoons.

MR. HARVIE: And that will be on the 16th, the next session, and will we carry on then with the present arrange-

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ments?

THE CHAIRMAN: On the 16th from 9.30 to 1 o'clock
will be the arrangement then, on account of the Court Reporters.

MR. HARVIE: If the G.O.P. would have their material
ready ahead of time and distributed, I think that would save us
a considerable amount of time also.

THE CHAIRMAN: I think Mr. Hamilton is assisting Mr.
Scrimgeour, is it?

MR. HAMILTON: I have had some consultations with
him, Sir.

THE CHAIRMAN: And would you convey to him that as
soon as his material is ready, it should be distributed also?

MR. HAMILTON: Very good, Sir.

THE CHAIRMAN: All right, we will then adjourn until
Tuesday, the 16th of April, at 9.30 A.M.

(The Hearing was then adjourned accordingly, to be resumed at
9.30 A.M., April 16th, 1946).

Discussion

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Meeting

On the 10th from 9.30 to 10.15
will be the arrangement then, on account of the fact that
if the R.C.F. would have their meeting
very much of time and disturbance, I think that would be
a considerable amount of time also.
I think Mr. Hamilton is attending the
Symposium. Is it
I have in some correspondence with
and would you please to the fact as
soon as the material is ready, it should be distributed about
Very soon, Sir.
All right, we will then adjourn until
Tuesday, the 12th of April, at 9.30 A.M.
The meeting was then adjourned accordingly, to be held at
9.30 A.M., April 12th, 1955.

